

GENERAL PROVISIONS OF THE GENERAL APPROPRIATION ACT AND OTHER OVERALL ISSUES

In addition to the specific appropriations to agencies, departments and institutions, the General Appropriation Act (Laws 2009, 1st Regular Session, Chapter 11, as amended by Laws 2009, 1st Regular Session, Chapter 12) and Laws 2009, 3rd Special Session, Chapter 11 provide direction with regard to several general provisions.

General Provisions

FY 2010 Statewide Adjustments — Section 126 of the General Appropriation Act appropriates \$14,998,000 from the General Fund and \$6,817,300 from Other Appropriated Funds for FY 2010 statewide adjustments for health insurance. No other statewide adjustments were funded in FY 2010. Section 126 states that the JLBC Staff shall determine and the Arizona Department of Administration (ADOA) shall allocate to each agency or department an amount for each adjustment. For details on the amount allocated to each agency, please see the Crosswalk section.

Expenditure Reporting — Section 127 states that it is the intent of the Legislature that all budget units receiving appropriations continue to report actual, estimated and requested expenditures by budget programs and classes in a format similar to the one used for budgetary purposes in prior years. The purpose of this section is to ensure stability and consistency in expenditure reporting regardless of yearly changes in appropriation formats. A different format may be used to implement budget reform legislation if agreed to by the Director of the JLBC and incorporated into the budget instructions issued by the Governor's Office of Strategic Planning and Budgeting.

FTE Position Reporting — Section 128 states that the Full Time Equivalent (FTE) Positions contained in the General Appropriation Act are subject to appropriation. The section directs the Director of ADOA to account for the utilization of all appropriated FTE Positions, excluding FTE Positions in the Department of Economic Security (DES), Universities, and Department of Environmental Quality (DEQ). The Director shall submit the FY 2010 report by August 1, 2010 to the Director of the JLBC.

The reports shall compare the level of FTE Position usage in each fiscal year to the appropriated level. This section defines FTE Positions as the total number of hours worked, including both regular and overtime hours as well as hours taken as leave, divided by the number of hours in a work year. The ADOA Director shall notify the director of each budget unit if the budget unit has exceeded its number of appropriated FTE Positions. DES, the Universities, and DEQ shall report to the Director of the JLBC in a manner comparable to the ADOA report.

Filled FTE Position Reporting — Section 129 states that by October 1, 2009 each agency, including the Judiciary and the Universities, shall submit a report to the JLBC Director on the number of filled, appropriated FTE Positions by Fund Source. The report shall reflect the number of filled, appropriated FTE Positions as of September 1, 2009.

FTE Position Reduction — In addition to FTE Position changes made in the General Appropriation Act, Laws 2009, 3rd Special Session, Chapter 11, Section 17 provides a further 5% FTE Position reduction to General Fund supported agencies, boards, commissions or other state entities. Section 17 requires that on or before February 1, 2010, the number of actual FTE Positions shall be reduced, rather than reducing the number of work hours or furloughing employees. By June 1, 2010, each agency is required to report to the Joint Legislative Budget Committee on how this reduction was accomplished. Since the number of FTE Positions eliminated as a result of the legislation has not yet been identified, the FY 2010 appropriated level of FTE Positions for each agency may change.

Performance Measure Results Reporting — Section 130 requires agencies to submit FY 2009 results for performance measures in the General Appropriation Act as part of their FY 2011 budget request. If an agency fails to submit this information, they are to submit a report in their FY 2011 request explaining why the agency failed to submit the results.

As part of program budgeting, agencies are required to track their performance on several program indicators. The *Appropriations Report* includes key performance measures in each agency or cost center narrative. For each measure, the General Appropriation Act provides a target result for FY 2010.

Transfer Authority — Section 131 requires ADOA to provide a monthly report to the JLBC Staff on agency transfers of spending authority from one expenditure class to another or between programs.

Interim Reporting Requirements — Section 132 requires the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2009 General Fund ending balance by September 15, 2009 and a preliminary estimate of the FY 2010 General Fund ending balance by September 15, 2010. Based on this information, JLBC Staff shall report to JLBC by October 15 of 2009 and 2010 as to whether that fiscal year's revenues and ending balance are expected to change by more than \$50,000,000 from the budgeted projections.

Table 1**FY 2010 State Employee Health/Dental Insurance**

	<u>General Fund</u>	<u>Other Fund</u>	<u>Non-Approp.</u>	<u>Total Employer</u>	<u>Employee Premiums</u>	<u>Retiree Premiums</u>	<u>Total</u>
Health	308,539,000	140,244,900	112,196,000	560,979,900	66,950,200	78,593,700	706,523,800
Dental	8,691,100	3,950,500	3,160,400	15,802,000	27,658,200	5,193,300	48,653,500
Total	\$317,230,100	\$144,195,400	\$115,356,400	\$576,781,900	\$94,608,400	\$83,787,000	\$755,177,300

Expenditure Authority — Section 135 states that for purposes of the General Appropriation Act, “expenditure authority” means that the fund sources are continuously appropriated monies that are included in the individual line items of appropriations.

JLBC Review — Section 136 states that for purposes of the General Appropriation Act, “review by the Joint Legislative Budget Committee” means a review by a vote of a majority of a quorum of the members.

Statewide Standard Changes

In addition to the adjustments to agency budgets and general provisions outlined previously, the FY 2010 budget reflects the adoption of technical assumptions. These technical assumptions are incorporated into each agency’s individual appropriation in the General Appropriation Act (Laws 2009, 1st Regular Session, Chapters 11 and 12). Statewide adjustment amounts are mentioned first in any relevant agency narrative, but in most circumstances do not have additional discussion.

Employee Related Expenditures

Health Insurance — The state continues to self-insure state employee health benefits. Under self-insurance, the state assumes the risk of providing health coverage to state employees and pays health claims directly. Therefore, if the costs of employee health coverage exceed estimates, the state will be responsible for those losses. Similarly, if the costs are less than estimated, the state will retain the savings.

Employees have a choice between an Exclusive Provider Organization (EPO, which is the self-insured equivalent of an HMO), a Preferred Provider Organization (PPO) and the new Health Savings Account (HSA) Option. Employees statewide will have a choice between 4 EPOs, 3 PPOs and 1 HSA Option. For the EPO and PPO options, they will also be able to choose between a “non-integrated” plan, in which different companies provide the medical network, third-party administrator, and utilization review components of health coverage, and an “integrated” plan, in which 1 company provides all 3 functions. A provision in the Health and Welfare Budget Reconciliation Bill (Laws 2009, 3rd Special Session, Chapter 10) continues a mandate begun in FY 2007 that employees will

not be charged a different premium for an integrated plan than for a non-integrated plan.

The new HSA Option is a tax-preferred account coupled with a high deductible health plan that allows members to use in-network and out-of-network providers, provides free preventative care and requires coinsurance rather than copays. With this option the monthly premium is lower than other health plans, however there is a high deductible. Persons who select the HSA Option will be automatically enrolled in a Health Savings Account, which is an account that allows pre-tax contributions, earnings and healthcare-related withdrawals. The state will also contribute monthly to a Health Savings Account, if an employee elects the HSA Option. EPO and PPO members are not eligible for an HSA. In FY 2010, the state will contribute \$42 per month (\$504 per year) to an employee’s HSA if they elect single coverage and \$83 per month (\$996 per year) if they elect “employee plus one adult”, “employee plus one child” or family coverage.

Laws 2009, 3rd Special Session, Chapter 10, Section 13 also makes changes to the definition of “eligible dependents” for the state employee health insurance program. For this contract year, dependents will include only a spouse, child under the age of 19, or full-time students under the age of 23. This change eliminates benefit eligibility that started last year (beginning October 1, 2008) for domestic partners, a domestic partner’s children, and full-time students that are 23-24.

State employee and employer premiums for the upcoming plan year are shown in *Table 2*. For the plan year starting October 1, 2009, the previous option “employee plus one” will be split into “employee plus one adult” and “employee plus one child”. Employee premiums will increase by \$9 per month for single coverage, \$37 per month for “employee plus one adult” coverage, \$19 per month for “employee plus one child” coverage, and \$28 per month for family coverage. Including these increases, total premiums are expected to be \$707 million (*see Table 1*). Employer premiums make up the majority of this amount, consisting of \$561 million. Employer premiums will be the same for each type of coverage statewide. In addition to the \$561 million, the health amount includes \$67 million in employee premiums and \$79 million in retired employee premiums.

Table 2

**Health Insurance
State Employee and Employer Monthly Contributions**

	State Employee Contribution 10/1/09 Contract	Employer Contribution 10/1/09 Contract
<u>Exclusive Provider Organization (EPO)</u>		
Employee	\$39.00	\$484.00
Employee Plus One Adult	97.00	1,013.00
Employee Plus One Child	79.00	967.00
Family	178.00	1,264.00
<u>Preferred Provider Organization (PPO)</u>		
Employee	154.00	641.00
Employee Plus One Adult	328.00	1,318.00
Employee Plus One Child	309.00	1,268.00
Family	443.00	1,699.00
<u>Health Spending Account (HSA) Option</u>		
Employee	25.00	\$444.00
Employee Plus One Adult	80.00	906.00
Employee Plus One Child	59.00	879.00
Family	150.00	1,143.00

Dental Insurance — Employees have a choice between one indemnity plan and one pre-paid plan. Employee and employer premiums based on the upcoming plan year are shown in *Table 3*. While the employer previously paid a large portion of the total indemnity plan premium, in FY 2010, that employer premium will decrease to match that paid for the pre-paid plan. As a result, the employee cost for the indemnity plan will increase by \$13.86 for employee coverage, \$30.93 for “employee plus one” coverage, and \$55.12 for family coverage. There will be no change to prepaid plan premiums for the employee or employer. Total premiums are expected to be \$49 million (see *Table 1*).

Table 3

**Dental Insurance
State Employee and Employer Monthly Contributions**

	State Employee Contribution 10/1/09 Contract	Employer Contribution 10/1/09 Contract
<u>Prepaid</u>		
Employee	\$5.00	\$4.96
Employee Plus One	9.00	9.92
Family	14.00	13.70
<u>Indemnity</u>		
Employee	29.86	4.96
Employee Plus One	67.93	9.92
Family	118.12	13.70

For most General Fund agencies, the health and dental insurance contribution is the amount designated in the *Appropriations Report*. These monies are transferred or “swept” from agency General Fund budgets at the

beginning of the year and are not charged to agencies on a payroll by payroll basis. The exceptions are the Department of Economic Security, the Department of Corrections and the Universities, who are not “swept,” but instead pay the actual costs incurred for health and dental insurance premiums. (Please see the *Health Insurance Allocations table at the end of this report for these amounts*.)

In addition to health and dental insurance, the following items are components of an agency’s Employee Related Expenditures.

Employer Contribution Rates — *Table 4* provides a list of budgeted state employer contribution rates for state employee benefits during FY 2010. These rates may be different from actual funded charges (e.g., the Social Security FICA maximum may increase.) Except for life insurance, rates are calculated as a percent of Personal Services.

Life Insurance — \$40.30 per employee per year, an increase of \$3.58, from the FY 2009 rate of \$36.72.

Unemployment Insurance — 0.412% of Personal Services for each agency, an increase of 26.2% from the FY 2009 rate of 0.15%.

Personnel Division Pro Rata — 1.10% of Personal Services for each agency in the Arizona Department of Administration (ADOA) personnel system, an increase of 0.03% from the FY 2009 rate of 1.07%. The FY 2010 increase is a result of funding the State Personnel Board from this pro rata charge rather than the General Fund (Laws 2009, 3rd Special Session, Chapter 7). The ADOA Human Resources Division budget is funded from an

Table 4**FY 2010 Employer Contribution Rates**

<u>Category</u>	<u>Rate</u>		
Life Insurance (per FTE Position)	\$40.30		
Unemployment Insurance	0.412%		
Personnel Division Pro Rata	1.10%		
Disability (Arizona State Retirement System)	0.40%		
Disability (Non-State Retirement System)	0.36%		
Information Technology Planning	0.20%		
Retiree Accumulated Sick Leave	0.40%		
Attorney General Pro Rata	0.675%		
Workers' Compensation	Varies		
<u>Federal Insurance Contributions Act (FICA)</u>			
Social Security (salary max \$102,000)	6.20% ^{1/}		
Medicare (no salary cap)	1.45%		
<u>Retirement System</u>			
	<u>Employer</u>	<u>Employee</u>	
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2010</u> ^{2/}
Arizona State Retirement System	8.95	9.00	9.00
<u>Correctional Officers Ret. Plan</u>			
Correctional Officers - DOC	8.90	9.19	8.41
Correctional Officers - DJC	8.42	8.41	8.41
Elected Official Retirement Plan	14.05	14.25	7.00
University Optional	7.00	7.00	7.00
<u>Public Safety Personnel Retirement</u>			
Liquor License Investigators	20.30	19.02	7.65
Department of Public Safety ^{3/}	33.62	31.95	2.65
Northern Arizona University Police	25.97	25.36	7.65
University of Arizona Police	21.70	20.01	7.65
Arizona State University Police	19.46	19.96	7.65
Game and Fish Department	37.98	37.09	7.65
Attorney General Investigators	52.81	46.39	7.65
DEMA Firefighters	20.46	16.46	7.65
ADOA Capitol Police	14.23	11.00	7.65
Parks Police	17.83	17.51	7.65

^{1/} Reflects budgeted salary maximum; actual cap beginning January 2009 is \$106,800.

^{2/} FY 2010 retirement employee rates are unchanged from FY 2009 except for Arizona State Retirement System, which increased from 8.95%.

^{3/} The displayed rates reflect that 5% of the DPS member contribution of 7.65% is paid by the state.

assessment on the payroll of agencies in the ADOA personnel system.

Disability Insurance — For Arizona State Retirement System (ASRS) employees the employer pays 0.50% of Personal Services for disability insurance; for non-ASRS employees the rate is 0.36%. Both rates are unchanged from FY 2009.

Information Technology Planning — 0.20% of Personal Services for each agency, unchanged from the FY 2009 rate. The Government Information Technology Agency budget is funded from an assessment on the payroll of all state agencies except the Universities.

Retiree Accumulated Sick Leave — 0.40% of Personal Services for each agency, unchanged from the FY 2009 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies.

Attorney General Pro Rata — 0.675% of the Personal Services base for each agency not specifically excluded from the charge, unchanged from FY 2009.

Workers' Compensation — The rates vary by individual agency. The budgeted rates are unchanged from FY 2009. The rates calculated by ADOA and the budgeted rates may be different. Monies are deposited into the Risk Management Fund for payment of costs associated with Workers' Compensation losses.

Federal Insurance Contributions Act (FICA) — Social Security taxes are applied at a rate of 6.20% up to \$102,000 of an employee's salary, which is an increase from the \$97,500 maximum assumed in FY 2009. The \$106,800 budgeted maximum is less than the actual maximum, which was \$106,800 as of January 2009. In addition, Medicare taxes are applied at a rate of 1.45% on the full level of an employee's salary. Both the FICA and Medicare rates are unchanged from FY 2009.

State Retirement Systems — There are 4 state employee retirement systems -- ASRS, the Public Safety Personnel Retirement System (PSPRS), the Corrections Officers Retirement Plan (CORP), and the Elected Officials Retirement Plan. In addition, the Universities operate their own defined contribution plan. For ASRS, both the employer and employee rates increased by 0.05% in FY 2010, from 8.95% to 9.00%. No change in agencies' budgets was made for this adjustment in rates. *Table 5* below lists ASRS contribution rates since FY 1983.

For PSPRS, CORP and EORP only the employer contribution rate changed, as the employee contribution rates which are set in statute remain unchanged for FY 2010.

Other Operating Expenditures

The following items are included in agency's Other Operating Expenditures.

Building Payments — The Other Operating Expenditures line of individual agency budgets includes rental charges, lease-purchase, and privatized lease-to-own (PLTO) payments for certain buildings. Rent charges in state-owned space will remain at \$21.02 per square foot, with the charge for state-owned storage space remaining at \$7.62 per square foot.

Table 5

ASRS Contribution Rates

<u>Fiscal Year</u>	<u>Rate</u> ^{1/}
FY 1983	7.00
FY 1984	7.00
FY 1985	6.27
FY 1986	5.67
FY 1987	5.53
FY 1988	4.00
FY 1989 ^{2/}	4.78
FY 1990 ^{2/}	1.29
FY 1991 ^{2/}	3.37
FY 1992 ^{2/}	3.17
FY 1993 ^{2/}	3.10
FY 1994 ^{2/}	2.65
FY 1995 ^{2/}	3.26
FY 1996	3.36
FY 1997	3.20
FY 1998	3.05
FY 1999	2.85
FY 2000	2.17
FY 2001	2.17
FY 2002	2.00
FY 2003	2.00
FY 2004	5.20
FY 2005	5.20
FY 2006	6.90
FY 2007	8.60
FY 2008	9.10
FY 2009	8.95
FY 2010	9.00

^{1/} Employer and employee each pay this rate.

^{2/} Long Term Disability not broken out of the contribution rate from FY 1989 - FY 1995. Rates for these years reflect amounts estimated to be attributable solely to retirement component.

Funding is also included in budgets for all agencies housed in buildings acquired by lease-purchase or PLTO, including changes to those payments. *(Please see the State-Owned Space Rent and State Lease-Purchase and Privatized-Lease-To-Own discussions above and the Rent and other Lease-related schedules in the Capital section for more details.)*

Risk Management — Individual agency budgets' Other Operating Expenditures include the Risk Management charges to be billed by the ADOA Risk Management Program. The billings vary by individual agency. The budgeted rates have not changed from FY 2009 and are estimated to generate total revenues of \$70.1 million yearly. The rate that ADOA charges each agency may be different than the budgeted rates. Monies are deposited into an ADOA fund for payment of costs associated with Risk Management losses. The state self-insures for Risk Management services by assessing agencies charges based on actuarial projections and paying claims against the state. *(Please see the Risk Management discussion above for more details and the Summary of Risk Management Charges later in this section for these charges.)*

Other Budget Issues

Administrative Adjustments — The budget assumes that state agencies will have expenditures totaling \$72,731,000 in FY 2010 for FY 2009 expenditures. Agencies are permitted to make administrative adjustments for expenditures obligated in FY 2009 but for which the state was unbilled until FY 2010. An agency's administrative adjustments cannot exceed its prior year reversionment, or unused appropriation authority. The \$72,731,600 is an increase of \$17,531,600 from the originally budgeted FY 2009 total of \$55,200,000. The FY 2010 amount is 70% of prior-year reversionments. This amount reflects a percentage close to the historical average. Administrative adjustments as a percentage of prior year's reversionments vary widely from year to year, however, from below 30% to above 70%.

In addition to the FY 2010 increase above FY 2009, the budget also assumes a revised FY 2009 administrative adjustment total of \$136,000,000, an increase of \$80,800,000 from the originally-budgeted FY 2009 total. This amount is 70% of reported FY 2008 reversionments and is based on an analysis of individual agency spending reports and extrapolating final administrative adjustments based on those agencies' historical trends.

Reversionments — The budget assumes that state agencies will revert \$(113,241,600) of FY 2010 appropriations back to the General Fund because the agencies will not spend their entire appropriation. Agencies will be permitted to make administrative adjustments totaling no more than this amount in FY 2010. This amount is an increase of \$16,241,600 from the originally-budgeted FY 2009 total of \$(97,000,000). The FY 2010 amount reflects 1.2% of total spending, a percentage based on historical averages in years which the economy slows down.

In addition to the FY 2010 increase above FY 2009, the budget also assumes a revised FY 2009 reversionment total of \$(103,902,300), an increase of \$(6,902,300) from the originally budgeted FY 2009 total. This amount is approximately 1.2% of FY 2009 estimated spending and takes into account the historical average used to determine FY 2010 reversionments.

In addition to these reversionments, the FY 2010 budget also continues to modify the accounting of non-lapsing General Fund monies, which are not usually included in the General Fund ending balance. Laws 2009, 3rd Special Session, Chapter 7 requires that any monies appropriated from the General Fund that are non-lapsing and unexpended at the end of FY 2010 shall be treated as if these funds are part of the FY 2010 ending balance. This accounting method is not anticipated to generate additional any statutory reversionment savings in FY 2010. These monies remain non-lapsing and continue to be available to the agencies in FY 2011.

The FY 2010 budget also assumes the reversion of 3 additional General Fund appropriations totaling \$425,909,400. This amount consists of the following:

AHCCCS Fraud Reduction — The budget assumes that fraud reduction efforts will allow the agency to reduce costs by \$(50,000,000), which would be reverted to the state. The AHCCCS budget is not reduced.

K-12 Formula Changes — The K-12 Education BRB made various statutory changes to the K-12 funding formula. The savings associated with those changes were restored as part of the Governor's line-item veto in Laws 2009, 3rd Special Session, Chapter 11. (*See Department of Education's (ADE) budget.*) However, with the statutory changes to the formula, the department will have \$(125,909,400) more than needed, which is assumed to revert at the end of the fiscal year.

State Equalization Tax Rate Continuation — The ADE budget also assumed the repeal of the State Equalization Tax Rate. The Governor vetoed the repeal, which decreases the need for state funding by \$(250,000,000) in FY 2010. (*See ADE for more details.*) This amount is assumed to revert to the General Fund at the end of the fiscal year.

Budget Format — The format governs how an agency's appropriation appears in the General Appropriation Act. A less detailed format provides an agency with more discretion in implementing the budget. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funds. Among the choices are the following:

Lump Sum — The appropriation for each fiscal year consists of a single dollar amount, thereby allowing the agency to shift funds among line items, programs and subprograms without further legislative or Executive Branch review. Within this format, any programs or Special Line Items may be listed separately.

Modified Lump Sum — The appropriation for each fiscal year consists of at least 3 lines: Personal Services, Employee Related Expenditures (ERE), and All Other Operating Expenditures. Any Special Line Items would be listed separately. Under this format, pursuant to A.R.S. § 35-173, an agency must seek approval of the JLBC before moving any funds into or out of the Personal Services and ERE line items. Any other transfers would require approval by ADOA, but not the Committee.

Detailed Line Item — The appropriation for each fiscal year consists of each line item listed in the Appropriations Report, including Professional and Outside Services, Travel, Other Operating Expenditures, Equipment, Food, and any special line items. The same rules govern Personal Services and ERE transfers as noted in the Modified Lump Sum description. The

appropriation requires the agency to seek ADOA approval before transferring monies between all other line items.